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CENTRAL INTELLIGENCE AGENCY

INFORMATION REPORT

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COUNTRY East Germany

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SUBJECT Cabinet Decision on Penalties for Contract Violations

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1. On 2 December 1953, the East Berlin Contract Court (Vertrags-Gericht) fined DIA 600,000 DME for breaking commercial agreements and contracts (specifically nonfulfillment of delivery dates) in a lawsuit brought by DHZ against DIA.
2. On 10 February 1954, the East Berlin Contract Court advised DHZ that DIA need not pay this fine following an East German Cabinet decision of 15 January 1954, which provides that fines imposed by the courts for violations of commercial contracts need not be paid.
3. This 15 January decision of the East German Cabinet, the Court advised, is a secret one and applies to all contracts concluded before 23 June 1953, where payment of fines has been imposed for contract violations committed before 31 October 1953.
4. Fourth quarter 1953 fines have not as yet been rescinded, although it is presumed that they will be later in 1954.
5. Competent circles of DHZ point out that if this decision is allowed to stand, complete economic planning chaos will soon result. 1/

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Comment. The following example may serve to illustrate the chain reaction which could be caused by such a seemingly minor decision: Under the 1954 Plan, DIA is to provide DHZ with 12,000 tons of commodity X in monthly deliveries of 1,000 tons each. DHZ, on the other hand, has commitments to provide 1,000 tons per month of commodity X to ten plants throughout the East Zone which in turn have production target commitments to turn out 100 finished consumer or military items Y per month, which are to be produced, at least in part, on the basis of commodity X. Now under the new decision, DIA

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need not deliver 12,000 tons of X until 31 December 1954--if at all-- to the DMZ rather than 1,000 tons each month. DMZ, in its turn, cannot deliver commodity X to the ten plants before the beginning of January 1955. On the other hand, the ten plants concerned were supposed to turn out 1,200 items Y-- at the rate of 100 a month--all through the year 1954, but obviously will not be able to do so, lacking commodity X needed for their manufacture.

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